Legislative Audit Division

State of Montana

Report to the Legislature

November 2004

Performance Audit

Managing Vacant Positions In State Agencies

Office of the Governor

This report presents information relating to agency management of vacant positions. Findings include:

- **Agencies have developed and created strategies to manage the numerous factors that influence vacant positions and affect management of personal services.**
- **Vacant FTE has doubled over the past 12 years and 1,071 FTE are vacant. The increase occurred for a variety of reasons including greater total FTE and increased vacancy savings mandates.**
- **Long-term vacancies exist with nearly 300 FTE vacant one year or longer and 190 FTE vacant six months to one year.**
- **Examine the need for maintaining positions vacant for longer than six months. Elimination could reduce initial budget requests between $21 and $34 million from 2007 biennium base budget and subsequent bienniums.**

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Members of the performance audit staff hold degrees in disciplines appropriate to the audit process. Areas of expertise include business and public administration, mathematics, statistics, economics, political science, criminal justice, computer science, education, and biology.

Performance audits are performed at the request of the Legislative Audit Committee, which is a bicameral and bipartisan standing committee of the Montana Legislature. The committee consists of six members of the Senate and six members of the House of Representatives.

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November 2004

The Legislative Audit Committee
of the Montana State Legislature:

This report provides information to the legislature regarding agency management of vacant positions. It includes our examination of the trends in the numbers of vacant positions over the past twelve years and concludes the number of vacant positions in state government has increased. In addition, the report includes an explanation of the historical reasons behind this increase. The report then presents information on how agency administrators manage vacant positions and how this impacts agency operations. Finally, the report includes a discussion of policy impacting vacant positions and presents a recommendation to the Governor's Office regarding management of vacant positions in state agencies.

We wish to express our appreciation to the Office of Budget and Program Planning and state agency management for their cooperation and assistance during the audit.

Respectfully submitted,

(Signature on File)

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Legislative Audit Division

Performance Audit

Managing Vacant Positions In State Agencies

Office of the Governor

Members of the audit staff involved in this audit were Lisa Blanford and Mike Wingard.

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Office of the Governor	Judy Martz, Governor
	Chuck Swysgood, Director Office of Budget and Program Planning

Introduction

The Legislative Audit Committee requested a performance audit of the management of vacant positions in state agencies. Key audit areas include:

- Determine the extent of vacant positions, statewide vacancy rates, and reasons positions are vacant.
- Identify key factors that influence both the number of vacant positions and length of time positions remain vacant.
- Determine how agencies manage vacant positions and use these vacancies to meet the vacancy savings rate mandated by the Legislature.
- Assess the impact of vacant positions on agency operations.

Background

The personal services budget for each agency is built on a position-by-position basis for all authorized positions whether filled or vacant. In theory, agencies do not incur expenses for salaries and benefits during the time positions are vacant – agencies realize a savings in salaries. In 1979, the Legislature recognized this concept and implemented a fiscal policy designed to capture the savings achieved due to employee vacancies. The Legislature initiated a practice of budgeting for projected salary savings due to vacancies. Since 1979, agency appropriations have been reduced by the amount of savings the Legislature projected would occur during an upcoming biennium based on the Governor's Office of Budget and Program Planning (OBPP) projections. For example, if the Legislature projects agencies will experience salary savings of two percent due to employee turnover and vacant positions – agencies receive 98 percent of the dollars needed to fully fund their personal services. This concept is commonly referred to as vacancy savings.

Summary Issues

After 25 years, the original concept and subsequent use of vacancy savings is now well established. While the original goal of the program – to capture unused payroll dollars during the time positions are vacant – has been achieved, there have been other impacts on the way managers administer the workforce.

Vacant Positions Are Increasing

One of the objectives of the performance audit was to determine the extent of vacant positions, statewide vacancy rate, and reasons positions are vacant. We found the number of vacancies has increased well beyond the legislatively mandated rates prescribed under vacancy savings. For example, for the 2005 biennium the Legislature implemented an average vacancy savings rate of 4.5 percent, however our analysis shows the vacancy rate currently exceeds 8.38 percent. In addition, our analysis of vacant FTE between 1992 and 2004 shows the vacant FTE rate has doubled. In 1992, 5.14 percent of state FTE was vacant; the rate climbed as high as 10.53 percent, and the current rate is 8.38 percent. A larger percent of FTE are vacant today compared to 12 years ago. We also found a pattern of long-term vacancies. Twenty-eight percent of vacant FTE have been vacant for a year or longer. In fact, 143 positions have been vacant since at least July 1, 1999.

Agencies Use Vacant Positions For Fiscal Purposes

Agencies react to vacancy savings mandates by keeping more positions vacant and extending the length of time positions remain vacant. Because the budget reductions are targeted toward personal services, the agencies have few choices – managers cannot fill all the authorized positions because they are not given the funding. Other key points relating to the current status of managing vacant positions include:

- State agencies have an incentive to make sure the construction of the base budget includes all positions, even if there is not an immediate goal to fill each vacant position included in the personal services base-budget "snapshot".

- Agencies are forced to keep vacant positions open for longer periods of time to address the additional budgetary pressures of termination and retirement payouts, unfunded pay and benefit adjustments, and agency initiated salary adjustments and management initiatives.

- The "advertised benefit" of vacancy savings is being offset in some agencies by the use of overtime, pay differential, and contracted services.

Need to Review and Eliminate Long-Term Positions

Increasing vacant positions and the numbers of long time vacant positions are the effects of current budget strategies adopted by the budget office and the Legislature. Long-term vacant positions are not part of naturally occurring vacancy rates. The fact agency management has allowed positions to remain vacant for an extended period of time suggests the positions are not necessary to agency operations.

Other states have taken steps to ensure that vacant positions are related to natural occurrences and the positions are essential for agency operations. For example, California state law requires the Comptroller to eliminate positions that are vacant for six consecutive months. Waiver provisions are provided for "hard to fill" positions. Additional measures discourage agencies from moving staff between vacant positions.

To establish more accurate data of the positions necessary to provide current state government services, OBPP needs to examine authorization for all positions that have been vacant for one year or longer and remove associated funds from the base budget. As of March 17, 2004 there were 297 vacant FTE meeting this criteria. In addition, OBPP should review the need for keeping those positions that have been vacant between six months to one year and consider eliminating those positions agencies cannot justify keeling.

Eliminating these long-term vacant positions from the base budget initial request will generate a reduction in personal services budget requests of from $20.7 million to $34 million for the biennium. This projection includes FTE funded from all fund types. Eliminating only House Bill 2 vacant positions would reduce personal services budget requests by $15.6 million to $26.9 million for the biennium.

Need to Reduce Mandated Vacancy Savings Rate If Positions Are Eliminated

Agencies use the budget authority associated with long-term vacant positions to meet vacancy savings mandates. If long-term vacant positions are eliminated from the base budget, affected agencies will no longer have the major mechanism used to meet agency initiatives, unfunded personnel costs and mandated vacancy savings. If long-term vacant positions are eliminated, then a reduction to the mandated vacancy savings rate must also be considered. Any vacancy rates remaining will most likely reflect more accurately the naturally occurring vacant rate.

Chapter I - Introduction and Background

Introduction

The Legislative Audit Committee requested a performance audit of vacant position management as applied in agencies throughout state government. This audit began with first identifying the extent of vacant positions in state agencies and determining reasons for vacancies. The next step was to identify key factors that influence both the number of vacant positions and length of time positions remain vacant. We also examined strategies agencies use to manage vacant positions and how vacancies affect agency operations.

Audit Objectives

Audit scope focused on vacant positions within state agencies. Key performance audit objectives were:

- To determine the extent of vacant positions, the statewide vacancy rate, and the reasons positions are vacant.
- To determine how agencies manage vacant positions and use these vacancies to meet the vacancy savings rate mandated by the Legislature.
- To assess the impact of vacant positions on agency operations.

Audit Scope Methodologies and Data Limitations (Appendix A)

Appendix A contains a complete description of audit scope, objectives and methodology. The appendix also contains a discussion of data limitations that were encountered in conducting this audit. While ample vacant position data was available for more recent years, historical information regarding vacant positions among state agencies is limited. This impacted our ability to present comprehensive trending information.

Report Organization

The remainder of this chapter provides background information relative to personal services budgeting and a Legislative Fiscal Division study of personal services budgeting. Chapter II presents an analysis of the numbers of vacant positions in state government including historical trend information. Chapter III discusses the reasons behind the increase in the number of vacant positions and agency strategies to manage vacancies. Chapter IV discusses implications of vacant position management and presents recommended changes.

Basic Concepts of Personal Services Budgeting

In order to determine estimated personal services costs during budget development, the Governor's Office of Budget and Program Planning (OBPP) takes a personal services "snapshot" of each state agency (excluding the university system) FTE every other year. The snapshot captures personal services attributes at a point in time. Attributes include the number of authorized positions, whether positions are filled or vacant, and the incumbent's salary including benefits for each authorized position. Positions vacant at the time of the snapshot are included in the calculations at entry-level salary. The data captured during this process is aggregated and becomes the base budget for personal services for the upcoming biennium. Thus, the personal services budget for each agency is built on a position-by-position basis for all authorized positions whether filled or vacant.

Budgeting for Vacant Positions

In theory, agencies do not incur expenses for salaries and benefits when positions are vacant - agencies realize a savings in salaries. In 1979, the Legislature recognized this concept and implemented a fiscal policy designed to capture the savings achieved due to employee vacancies within state agencies. The Legislature initiated a practice of budgeting for projected salary savings due to vacancies. Agency appropriations were reduced by the amount of savings the Legislature projected would occur during the upcoming biennium. For example, if the Legislature projects agencies will experience salary savings of two percent due to employee turnover and vacant positions – agencies receive 98 percent of the dollars needed to fund their personal services. This concept is commonly referred to as *vacancy savings*.

The Governor's Office incorporates vacancy savings into the budget proposal and the Legislature applies a vacancy savings reduction as part of the budget appropriation process. Vacancy savings budget reductions are usually accomplished via a set percentage that is applied to most agencies. General practice is to apply vacancy savings to all positions – full-time, part-time and seasonal. However, certain employee positions have been periodically exempted from vacancy savings. The following table provides details on the vacancy savings factors and exemptions applied by the Legislature in the past five biennia.

Table 1

Vacancy Savings Factors
1997 Through 2005 Biennia

Biennium	Vacancy Savings History
1997	The Legislature included **varying** vacancy savings rates among selected agencies, and among programs within agencies, in order to help fund adjustments to the employee pay plan. Some agencies were exempted.
1999	A **3 percent** vacancy savings rate was applied against all positions in state government. Agencies with less than 20 FTE were exempted. The Legislature also assumed new positions added via new proposals would not be hired for the first three months of the fiscal year, and thus applied a 25 percent vacancy savings factor to new positions.
2001	The Legislature adopted a vacancy savings rate of **3 percent** on all personal services except insurance. Agencies with fewer than 20 FTE, elected officials, and direct care workers within Department of Corrections were exempted.
2003	A **4 percent** vacancy savings rate was applied on all personal services, including insurance, for most agencies and programs. Agencies with less than 20 FTE and university system faculty were exempted. In addition, the legislature adopted lower rates on certain agencies and higher rates on specific programs.
2005	Final legislative budget incorporated a 4 percent vacancy savings rate. The Legislature also applied additional General Fund reductions to most agencies as a final budget balancing strategy. The combined reduction varies from 0.6 percent for the Arts Council to 5.8 percent for School for the Deaf and Blind. Other agencies with higher combined vacancy savings reductions are Corrections at 5.7 percent and Revenue at 5.6 percent. The average combined vacancy savings rate is **4.5 percent**. No agencies or positions were exempted. In addition, the first six months of increased costs of health insurance were not funded which resulted in additional vacancy savings mandate of **0.5 percent**. The Legislature countered the impacts of managing increased vacancy savings mandates by allowing agencies latitude to modify operating plans to move appropriations between budget categories: i.e. operating expenses to personal services and vice versa.

Source: Compiled from Legislative Fiscal Division records.

When first applied, vacancy savings was based on each agency's historical experience. Over time, the vacancy savings amount the Legislature has applied has increased. The percentage is now a product of how much savings are needed to help balance the budget, along with consideration of what is considered realistic for agencies to achieve – either through normal turnover or by forcing savings by leaving more positions vacant, leaving them vacant for longer periods, or creating new vacancies via employee lay-offs.

During the 2005 biennium, agency appropriations were reduced $20.9 million General Fund and $30.1 million other funds due to budgeting for anticipated vacancy savings. Budget reductions during the 2003 biennium totaled $19.0 million General Fund and $23.1 million other funds. Other funds include State Special Revenue, Federal Special Revenue, and the portion of Proprietary funds appropriated in House Bill 2.

Personal Services Contingency Fund

Vacancy savings are removed from appropriations on the assumption employee turnover and resulting salary savings will be sufficient to cover the reduction. However, if enough vacancies do not occur, agencies are not able to generate enough vacancy savings to stay within appropriations. To address this situation, the Legislature created a contingency fund to assist agencies that have insufficient resources to meet all personal services expenses. OBPP is responsible for reviewing requests for and authorizing allocations from this fund. Contingency fund appropriations and allocations for the more recent biennia are shown in the following table.

Table 2

Personal Services Contingency Fund
Appropriations and Allocations [1]
1995 Through 2005 Biennia

Biennia	Appropriations	Allocations
1995	$ 3.7 million	$ 3.4 million
1997	$ 1.5 million	$ 1.2 million
1999	$ 11.1 million	$ 2.1 million
2001	$ 1.7 million	$ 685,000
2003	$ 4.3 million	$ 2.1 million
2005	$ 4.5 million	$1 million [2]

Footnote:
(1) Historical data of agency requests not available.
(2) Allocated as of June 21, 2004.

Source: Compiled from Legislative Fiscal Division and OBPP records.

Agencies receiving allocations from the personal services contingency fund during the 2003 biennium include: Historical Society, Justice, Library Commission, Montana Arts Council, Natural Resources and Conservation, Public Health and Human Services, Revenue, and School for the Deaf and Blind. Allocations for the 2005 biennium (as of June 21, 2004) include: Appellate Services, Corrections, Historical Society, Montana Arts Council, Natural Resources and Conservation, and Office of Public Instruction.

Legislative Fiscal Division Study

The Legislative Fiscal Division (LFD) completed a study of personal services budgeting and vacancy savings in May 2002. The study focused on the current process of budgeting for personal services and presented budgeting alternatives for legislative consideration. The study also examined the use of vacancy savings as a budgeting tool, presented the advantages and disadvantages of using vacancy savings, and provided the Legislature with six options regarding vacancy savings. Options were as follows:

1. Do not apply vacancy savings.
2. Maintain status quo of a global application of vacancy savings and exempting small agencies of 20 or less full time equivalent (FTE) employee.
3. Exempt 20 FTE from each agency from vacancy savings reductions.
4. Base vacancy savings percentages on the amount of turnover individual agencies typically experience.
5. Set vacancy savings percent by agency size, based either on FTE or budget.
6. Revert vacancy savings dollars as vacancies occur.

LFD identified the option of exempting 20 FTE from each agency from this reduction as most easily implemented, if the Legislature chose to continue applying vacancy savings. According to the LFD study, this option also offers a fairer methodology by exempting 20 FTE from calculations for each agency in order to "level the playing field." Options presented by LFD attempted to assess the budget balancing and overall lowest expenditures aspects of vacancy savings with the negative issues arising from the application of vacancy savings. Problematic issues of vacancy savings included:

1. The rate of vacancy savings is often established by the Executive Branch or Legislature to achieve a desired result in budgeting rather than reflecting the natural rate of vacancy savings.
2. Vacancies do not occur at the same level in all agencies and an agency might experience significant turnover in one year but not in another. Smaller agencies are often less able to absorb vacancy savings. There is no guarantee that historical trends are an accurate predictor of future experiences.
3. Agencies must sometimes leave positions vacant longer to generate vacancy savings. Thus, vacancy savings becomes "self-fulfilling."

4. It is difficult to manage personal services budgets at institutions (which require staff 24 hours a day, 7 days a week) when vacancy savings are imposed. There are some positions, such as correctional officers, which cannot be left vacant. If the agency leaves the position vacant, it must pay another correctional officer overtime to cover the shift. This negates savings and presents workload management challenges.

5. Vacancy savings may not be realized when large sick leave or annual leave payouts are necessary.

6. Agencies that experience little turnover can be adversely affected financially while agencies that experience a lot of turnover may gain a funding advantage.

7. There are inequities in the current practice of exempting an agency with 20 FTE while an agency with 21 FTE would have vacancy savings applied.

8. Vacancy savings may lead to requests for new FTE in order to obtain additional funding.

The study findings were presented to the Legislative Finance Committee (LFC) which was asked to consider the options and make recommendations for a budgeting methodology agreeable to both the Executive Branch and Legislature. LFC did not act on the options at the time the study was presented, and the Governor and the Legislature continued the practice of applying vacancy savings during the 2005 biennium with no FTE exemptions.

Chapter II - Vacant Positions are Increasing

Introduction

One of our primary audit objectives was to examine the extent of vacant positions in state agencies and determine the vacancy rate at a statewide level. In this chapter, we provide historical data regarding both the number of vacant positions and the vacancy rate in state agencies, excluding the university system. Historical vacancy data is also included which presents trends over time and illustrates the numbers of vacant positions and the vacancy rate over the past 12 years.

There are several key terms and concepts presented in this report chapter. They include the following:

- ***FTE***: full-time equivalent position, or the equivalent of one person working full-time for the entire year. Vacancy data is presented by FTE position. The significance of this is part-time positions are aggregated together. For example, a program can have two part-time positions (each at 0.5 FTE) which when aggregated represent 1.0 FTE.

- ***Vacancy rate***: the number of vacant positions divided by the number of total positions. This rate represents the portion of all FTE positions that are vacant.

- ***All fund types***: included in our analysis are FTE funded from all fund types. This includes FTE funded during the session through legislation via House Bill 2, statutory appropriations, proprietary, and one-time-only (OTO) appropriations. It also includes FTE funded during the interim via budget amendments.

- ***University System***: excluded from our review since the Legislature does not appropriate funding specifically for FTE.

Increasing Vacancy Rates

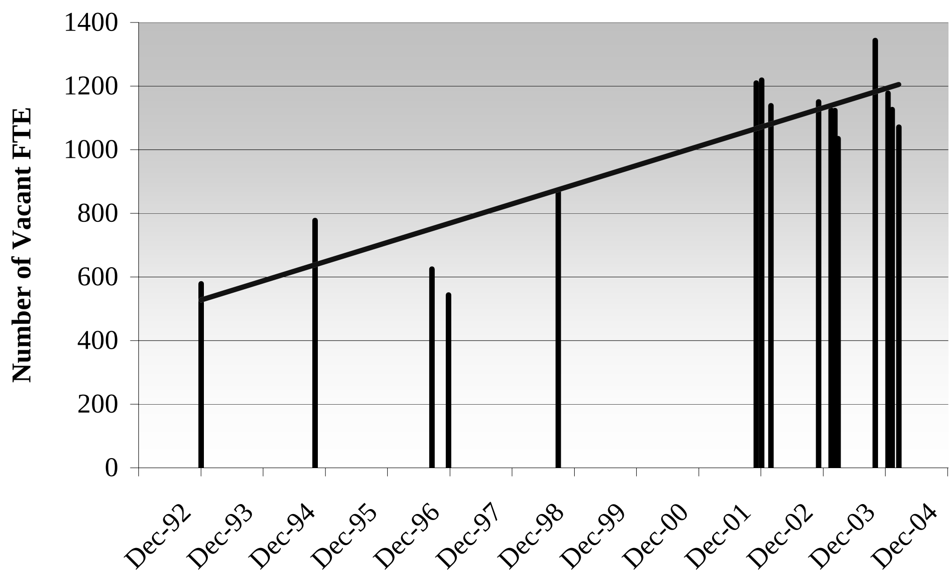
We gathered and examined data regarding vacant positions within state government. This included trend information on the number of vacant full-time equivalent employees (FTE), percent of total FTE that are vacant, and length of time positions have remained vacant. As discussed in both Chapter I and Appendix A, we encountered limitations as to the amount of historical data available. However, we were able to obtain sixteen “Vacant Position” reports covering the last twelve years. Each of these reports detail all positions vacant on the specific date the report was run. This data represents a "snapshot in time" of positions that are vacant. The available data clearly indicates a general increase both in numbers of vacant FTE and percent of total FTE that have been vacant during the past twelve years. In addition, the data also revealed a number of positions have been vacant for one year or longer. The following sections discuss these findings.

Long-Term Trend: Number of Vacant FTE Has Increased

Our analysis of vacant positions shows the long-term trend is an increase in the number of vacant FTE. In December 1992, 579 FTE were vacant and by March of 2004 this had increased to 1,071 vacant FTE. Figure 1 illustrates the number of vacant FTE on selected dates over the past twelve years.

Figure 1

Number of Vacant FTE - Long Term Trend
Selected Dates – 1992 Through 2004



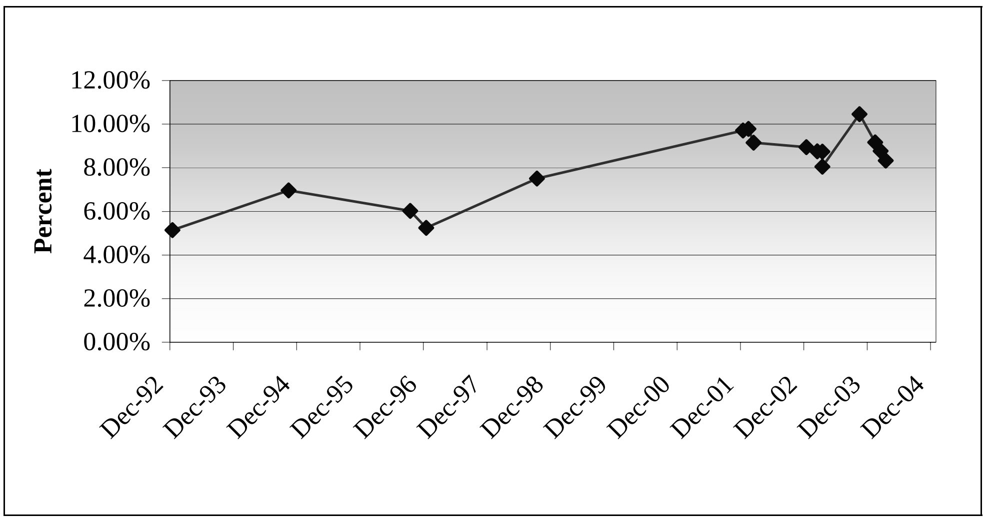
Source: Compiled by the Legislative Audit Division from SABHRS and OBPP records.

Percent of Vacant FTE Increasing

During the audit, we also calculated the vacancy rate to give perspective to what portion of all positions are vacant. The data reveals vacant FTE comprise an increasing percentage of total FTE between 1992 and 2004. In 1992, 579 of 11,256 FTE (5.14%)were vacant. By March 2004, this had increased to 1,071 of 12,777 FTE (8.38%). While the number of total FTE increased 14 percent during this time period, the number of vacant FTE increased 85 percent. The following figure shows percent of total FTE vacant at the time of the various snapshots.

Figure 2

Percent of Total FTE Vacant
Selected Dates – 1992 Through 2004



Note:

1) In 1992 total FTE was 11,256. Total FTE in 2004 is 12,777.

Source: Compiled by the Legislative Audit Division from SABHRS and OBPP Records.

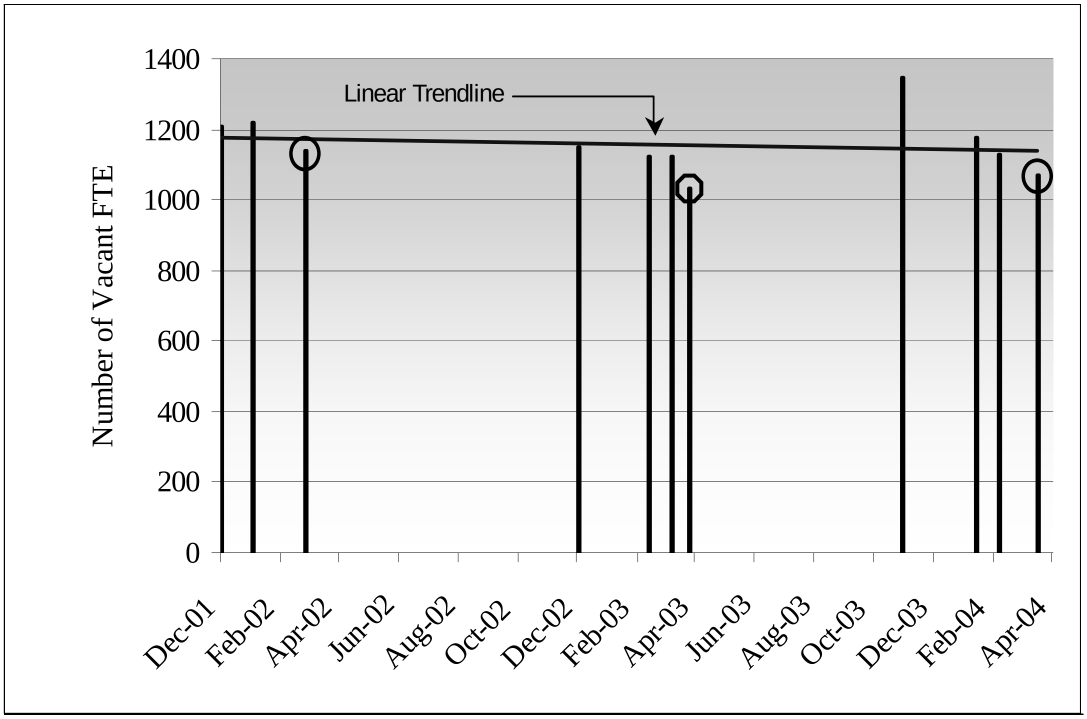
Data presented in Figure 2 shows the long-term trend is the percent of total FTE that are vacant has nearly doubled over the last twelve years, and vacant FTE comprise a larger portion of the states' total FTE. Short-term fluctuations in data are likely due to changes in legislatively mandated vacancy rates, periodic hiring freezes, early retirement incentive packages, reductions-in-force, and the ebb and flow of natural turnover in employees.

Short-Term Trend: Slight Decrease in Vacant Positions

While the long-term trend shows a definitive increase in vacant FTE, the short-term trend reveals a slight decrease in the number of vacant FTE. Between January 2002 and March 2004, the number of vacant positions decreased from 1,210 to 1,071. Part of the decrease in vacant FTE is attributable to a hiring freeze that was imposed by the executive branch and subsequently lifted during this time period. In addition, another trend that is evident is the number of vacant positions tends to be lowest near the end of the fiscal year. By fiscal year end, agency management is more certain of final expenditure status and has added ability to fill vacant positions. In addition, fiscal year end coincides with the personal services snapshot taken by Office of Budget and Program Planning for budget development purposes. Figure 3 illustrates the short-term trend of a decrease in vacant FTE.

Figure 3

<u>Number of Vacant FTE – Short Term Trend</u>
Selected Dates – December 2001 Through March 2004



O Indicates vacant positions near fiscal year end.

Source: Compiled by the Legislative Audit Division from SABHRS and OBPP Records.

Long-Term Vacancies Exist

During the audit we also examined data regarding length of time FTE remain vacant. The following table illustrates the length of time FTE positions had been vacant in state agencies on two different snapshots - February 25, 2002 and March 17, 2004.

Table 3

Comparison of Length of Time FTE Vacant
February 25, 2002 and March 17, 2004

Time Vacant	February 25, 2002	March 17, 2004
	Vacant FTE	Vacant FTE
Vacant between 1 and 180 days	584.08	584.63
Vacant between 181 and 364 days	220.47	190.14
Vacant 365 days or more	334.40	296.34
Totals	1,138.95	1,071.11
	Percent of Vacant FTE	Percent of Vacant FTE
Vacant between 1 and 180 days	51.28%	54.58%
Vacant between 181 and 364 days	19.36%	17.75%
Vacant 365 days or more	29.36%	27.67%
Totals	100.00%	100.00%

Note:

1) Due to timing of the vacant position reports, the category of 181 to 364 days captures summer seasonal positions.

Source: Compiled by the Legislative Audit Division from SABHRS records.

As Table 3 illustrates, long-term vacancies exist. As of March 2004, 296 FTE were vacant one year or longer. Another 190 FTE were vacant six months to one year. Further, our review shows 143 of the vacancies have not been filled since at least July 1, 1999, (the inception of the current personal services tracking system, SABHRS). While the number of long-term vacant FTE decreased slightly between 2002 and 2004, the percent of long-term vacant FTE is consistent. Approximately 28 percent of vacant FTE have remained unfilled a full year or longer.

Conclusion: The number of vacant FTE in state government has increased over time and represents a larger percent of total FTE. The data also shows long-term vacancies exist.

Chapter III - Vacant Positions and Agency Management Strategies

Introduction

In the prior chapter, we presented trend information that demonstrated the number of vacant FTE in state government has increased over time and that a larger portion of the state's total FTE are left vacant. This chapter details the reasons the numbers of vacant positions are increasing and provides information regarding agency strategies to manage vacant positions, and the impacts on agency personal services and programs. Factors contributing to increases in vacant positions and agency strategies to manage personal services are interrelated.

Reasons Vacancy Rates are Increasing

During the audit we interviewed management and personnel from the Office of Budget and Program Planning (OBPP), Department of Administration (DOA), and numerous agencies. This was done to identify and gain an understanding of the primary reasons positions are vacant and why vacancy rates are increasing in state government. We also examined information and studies conducted in other states relative to vacant government positions. The following sections discuss the reasons vacant positions exist and the factors affecting vacancy rates. Reasons include:

- Employee turnover
- Recruiting difficulties
- Legislatively mandated vacancy savings
- Termination payouts
- Unfunded personnel costs
- Salary adjustments
- Hiring freezes
- Covering unanticipated overtime, shift differential and contract service costs

Employee Turnover Causes Vacant Positions

All organizations have a certain percentage of vacant positions on an ongoing basis. Employee turnover and the vacancies are a normal part of both public and private sector organizations. There are costs associated with employee turnover including:

- Staff time for recruiting, advertising costs and candidate expenses.
- Lost productivity while the position is vacant.
- Training for new staff to get them to full capability with respect to job requirements.

Due to these costs, managers try to ensure turnover does not reach too high of a level. While there is no consensus on what the level of turnover should be, personnel experts cite excess turnover as an organizational problem. For this reason, DOA compiles basic data on reasons why employees leave state government employment. They include:

- Increased pay/benefits
- Better opportunity for advancement
- Change field of work or return to school
- Move from region
- Termination for cause
- End of position (seasonal)
- Retirement
- Medical reasons
- Personal
- Reduction in force

With the exception of reduction in force, which is typically associated with budget cuts; all of the reasons for turnover represent the ***natural*** turnover rate for an organization.

Recruiting Difficulties Extend Vacancies

Agencies can at times face difficulties recruiting qualified candidates. For positions that require specific professional qualifications, such as registered nurses and information technology positions, qualified candidates may not be readily available at the salaries offered. There is of course an ebb and flow to recruitment depending on general job market conditions in Montana, and in some cases, nation-wide. Inability to fill a position affects an agency's natural vacancy rate by increasing the number of vacant positions and extending the time positions remain vacant.

Legislatively Mandated Vacancy Savings

Fiscal policy is a key factor that influences the numbers of vacant positions in state government. The strategy of managing vacancy savings requires agencies to maintain a certain number of vacancies in order to remain within their appropriation. For the 2005 biennium, the Legislature included an average vacancy savings rate of 4.5 percent in department budgets. In addition, the Legislature chose not to fund the first six months of increased costs of health insurance resulting in an additional vacancy savings rate of 0.5 percent. These two factors together combine for an average vacancy savings rate of 5.0 percent for most agencies.

While in theory this represents the savings associated with vacant positions – in practice, agency managers are not given the funds to pay for all positions they are authorized to fill. Agencies receive an appropriation built on the assumption that spending on salaries will be 95 percent of the total positions authorized. This has two implications. First, filled positions are under-funded since vacancy savings are applied to all positions – both filled and vacant. Second, vacant positions are funded at the entry-level salary. However, vacant positions are sometimes filled above entry-level salary in order to attract candidates meaning the position is under-funded, which is an agency's decision.

The vacancy savings percentages mandated by the Legislature have increased over the years. As the Legislature applies higher mandated vacancy rates, the number of vacant positions and time positions remain vacant also increase. Fiscal policy has a direct effect on vacant position statistics.

Agency Generated Internal Vacancy Savings

While the legislatively mandated vacancy savings rate is the starting point agency decision-makers use for managing vacant positions within state government, there are other factors that impact the number and duration of vacant positions. These factors are the result of agency management actions taken to generate ***internal vacancy savings*** in order to stay within appropriations or implement other management initiatives. Managers will keep positions vacant so they can redirect savings to pay for un-anticipated expenses, make salary adjustments, and balance resources to meet program requirements and needs. The following sections discuss these factors.

Termination Payouts

There is a dollar cost associated with most terminations of employment, which is not included in agency appropriations. Agencies must absorb these costs within existing budgets unless agencies obtain a supplemental appropriation. Employees are entitled to cash compensation for unused leave upon termination of employment. This includes accrued annual leave, a portion of unused sick leave, and accumulated compensatory time for non-exempt employees. Retirements typically result in the largest dollar impact because of length of service and accrued benefits. Agency management often must extend the length of time the position remains vacant, or leave additional positions vacant, to cover the cost of the payout for accumulated leave. The dollar impact of termination payouts can be significant. Total unfunded leave liability for the state of Montana was $114.1 million at fiscal year end 2003.

Impacts to agency budgets will continue as more state employees retire and agencies must pay for termination payouts.

Unfunded Personnel Costs

Increases in personnel costs are not always fully funded by the Legislature. For example, the state employee compensation package includes the base salary and health care insurance. For the 2005 biennium, the Legislature increased the state's contributions for employee health insurance but did not fund the first six months of the increase. Agencies were required to fund this increase from their existing personal services appropriation. During the 1997 biennium, similar action was taken to fund adjustments to the employee pay plan.

Salary Adjustments

The broadband pay plan was initiated in 1997 as a pilot project and has been adopted by a number of agencies since that time. Under the broadband plan, agency management can adjust pay rates to help recruit and retain employees. This is done either at the time of hire or via merit adjustments for existing employees. This provides agencies greater flexibility to make salary decisions; however, it must be done within the current personal services appropriation for the program/agency. While a manager may have several choices for funding these adjustments, the use of vacancy savings is a common option. Other means of funding salary adjustments include filling a vacant position(s) at a salary less than budgeted or transferring spending authority from operating expenses to personal services. Once funded this way, salary increases eventually become part of the base budget for the next biennium.

Hiring Freezes

The state of Montana has used hiring freezes during times of tight budgetary constraints. The most recent hiring freeze was put in place by the Governor in August 2002 and lasted until February 2003. OBPP reviews requests for all exemptions. Hiring freezes, in conjunction with turnover, affect the natural vacancy rate by increasing the length of time positions remain vacant.

Covering Overtime, Shift Differential and Contract Service Costs

When key agency positions are vacant, managers may use overtime and contractors to meet workload needs. Unanticipated expenses for overtime and shift differential pay or contractors may force an agency to fund these contingencies by leaving additional positions vacant.

Summary

There are a variety of factors beyond natural employee turnover that increase in the number of vacant positions in state government. These factors build upon one another to expand both the number of vacant positions and the length of time positions remain unfilled.

Twenty-five years ago when the vacancy savings concept was initiated, an assumption was made that the natural vacancy rate from employee turnover was 2 - 3 percent. Now other factors impact the vacancy rate and it is not possible to determine the natural vacancy rate.

Conclusion: A number of factors cause the vacancy rate in state agencies to increase including: recruiting difficulties, legislatively mandated vacancy savings, agency actions to absorb un-funded personnel costs, and hiring freezes. These factors all combine to increase rates beyond what would naturally occur due to employee turnover.

How State Agencies Manage Personal Services

Agencies have developed and created strategies to manage the numerous factors that influence vacant positions and affect management of personal services. One of the audit objectives was to determine how agencies manage vacant positions to meet vacancy savings mandated by the legislature. We interviewed agency administrators to determine how they manage vacant positions and the strategies used. We used vacant position reports and discussed these vacancies with agency management to identify specific examples of how positions are managed and to determine why positions are vacant. The following sections discuss concepts agencies use to manage vacant positions.

Keep Vacant Positions Open Longer

A commonly employed tactic is to keep naturally occurring vacancies unfilled for as long as possible. Every person leaving the agency presents an opportunity to make up some of the budgeted vacancy savings, unfunded personal services costs and fund management initiatives. While the vacancy savings rate is calculated against all FTE in an agency, only vacant positions allow the agency to generate savings. In some cases, a position is deemed too important to leave unfilled for any extended period of time, and thus is not a position the agency chooses to keep vacant. Since higher salaries are most often associated with critical positions, this means agencies are typically using lower salaried positions to achieve the agency-wide vacancy savings rate. Our review of vacancies on a February 6, 2004 snapshot shows 62 percent of the vacancies were in the lower half of the state pay scale when examining pay grades. This means these lower salaried positions need to be kept open for even longer periods of time to meet the total budgeted vacancy savings applied to the agency.

Shift Work to Others

Agency decision makers also face additional obstacles when managing for vacancy savings at facilities providing security or custodial care such as correctional facilities, nursing homes and state hospitals. Vacancy savings is currently applied to positions that an agency cannot realistically leave vacant. For example, it is impossible to leave a position vacant that provides direct security at a prison or nursing care at a state mental health facility. If agency administrators leave such positions vacant, they must ensure those duties are performed - usually by requesting other staff to work overtime, cover a different shift, or assume responsibility for another position. From a fiscal perspective, there is little, if any, cost savings from leaving a direct care position open to generate savings while increasing costs by accruing overtime or shift differential pay. In reality, budgeted vacancy savings is usually met by applying it to other "non-essential" positions.

All agencies face similar challenges in applying vacancy savings to positions that are considered essential to operations.

Contract for Services

Agencies will sometimes enter into contracts with private vendors in order to cover shifts left open to generate vacancy savings and ensure workload needs are met. For example, it is common for agencies to use staff provided through temporary service contractors to perform administrative duties. One method agencies use to fund contracted services is by amending operating plans to move appropriation authority from personal services to operating expenses. Agency management indicated one of the benefits of using contracted service providers is those services are budgeted for and paid via operating expenses, so agencies avoid vacancy savings reductions applied against personal services. Reducing personal services budgets through vacancy saving requirements provides a budgetary incentive to shift work from state employees to contracted services without consideration of whether contracting is more effective or cost efficient.

Attempt to Expand the Personal Services Budget

Any expansion of the personal services budget will give an agency "breathing room" for managing personal services budgets, including vacancy savings mandates. Agencies can attempt to expand personal services budgets by seeking added positions via new proposals and requests during legislative session.

While expanding the personal services budget leads to increased vacancy savings mandates, larger personal services budgets provide agencies more options in managing personal services. Larger agencies generally have greater flexibility for managing internal vacant positions.

Maintain Existing Personal Services Budget

According to OBPP and agency management, agencies have an incentive to maintain existing personal services budget authority. Agencies employ a number of methods in order to accomplish this:

- Keep certain positions vacant "indefinitely" to use these dollars elsewhere.
- There is a tendency for agency management to fill as many vacant positions as feasible prior to the snapshot taken by OBPP for personal services budgeting purposes. Agency management perceives a certain amount of risk associated with leaving positions vacant. Agencies do not want to lose the authority to fill the positions.
- Move staff between authorized positions to "hide" extended vacancies.
- Amend operating plans to move budget authority from operating expenses to personal services or vice versa.

While using any of these methods is certainly understandable in terms of preserving existing budget authority, agencies can also be perceived as "playing budget games". There is strong fiscal incentive for agency management to use strategies to preserve vacant positions and related dollars. Fiscal practices adopted by the budget office and legislature drive this behavior.

Access Personal Services Contingency Fund

Another option for agencies not able to meet the budgeted vacancy savings (or stay within personal services appropriations) is to seek additional budget authority from the personal services contingency fund. As discussed in Chapter I, OBPP is responsible for reviewing requests for and authorizing allocations from this fund. As part of the review process, OBPP examines a requesting agency's overall finances to determine whether or not access to the contingency fund is necessary and justified; or whether the agency can cover the projected personal services "shortfall" via existing agency appropriations. Given that appropriations to the contingency fund are relatively small in comparison to total personal services budgets and there is usually more demand than supply, access to the fund has been restricted.

RIF and Leave Without Pay

An agency facing a shortfall in its personal services budget due to vacancy savings or other factors may choose to layoff employees, commonly called reductions in force (RIF). Personal services dollars not used in future payroll cycles can then be used to meet vacancy savings requirements. In addition, an agency could invoke temporary leave without pay as a budget-balancing tool. While state agencies have employed both of these options in the past, agency administrators typically view this as a last resort. Agency decision-makers prefer to rely on employee turnover and delayed hiring to achieve the desired outcomes. RIF and short-term furloughs are generally not an option in custodial care facilities such as correctional and mental health institutions.

Summary

Agency managers want flexibility to maintain personal services levels while ensuring program responsibilities and objectives are met. As agency administrators have come to rely on vacant positions to fund mandated vacancy savings and other agency expenses, keeping a greater percentage of positions vacant has become a key component of agency efforts to keep expenses within appropriations. Vacant position reports show agencies hold a large number of positions vacant. Payroll dollars saved while positions are left vacant cover mandated vacancy savings and serve as a means of financing unfunded personal services expenses and management initiatives.

Chapter III – Vacant Positions and Agency Management Strategies

Conclusion:	**Managing vacant positions and using the subsequent savings is a key part of agency management strategies. Agencies rely on these savings to meet legislatively mandated vacancy savings, absorb unfunded personal services costs, and fund management initiatives.**

Chapter IV - Future Implications

Introduction

The chapter addresses the management of positions that have been vacant and not used to operate government programs, and the implication of vacant position management. The chapter begins by re-capping some of the key findings and conclusions of the audit. Data is presented summarizing the policy implications of mandated vacancy savings and a recommendation is made to the Governor's Office of Budget and Program Planning.

Summary Issues

After 25 years, the original concept and subsequent use of vacancy savings is now well established. While the original goal of the program - to capture unused payroll dollars during the time positions are vacant - has been achieved, there have been other impacts on the way managers administer the workforce.

One of the objectives of the performance audit was to determine the extent of vacant positions, statewide vacancy rate, and reasons positions are vacant. We found the number of vacancies has increased well beyond the legislatively mandated rates prescribed under vacancy savings. For example, for the 2005 biennium the Legislature implemented an average vacancy savings rate of 4.5 percent, however the vacancy rate currently exceeds 8.38 percent. In addition, our analysis of vacant FTE between 1992 and 2004 shows the vacant FTE rate has doubled. In 1992, 5.14 percent of state FTE was vacant; the rate climbed as high as 10.53 percent, and the current rate is 8.38 percent. A larger percent of FTE are vacant today compared to 12 years ago. We also found a pattern of long-term vacancies. Twenty-eight percent of vacant FTE have been vacant for a year or longer. In fact, 143 positions have been vacant since at least July 1, 1999.

Agencies react to vacancy mandates by keeping more positions vacant and extending the length of time positions remain vacant. Because the budget reductions are targeted toward personal services the agencies have few choices – managers cannot fill all the authorized positions because they are not given the funding.

Other key points relating to the current status of managing vacant positions include:

- State agencies have an incentive to make sure the construction of the base budget includes all positions, even if there is not an immediate goal to fill each vacant position included in the personal services base-budget "snapshot."

- Agencies are forced to keep vacant positions unfilled for longer periods of time to address the additional budgetary pressures of termination and retirement payouts, unfunded pay and benefit adjustments, and agency initiated salary adjustments and management initiatives.

- The "advertised benefit" of vacancy savings is being offset in some agencies by the use of overtime, pay differential, and contracted services.

Addressing Long-Term Vacant Positions

Increasing vacant positions and the numbers of long-time vacant positions are the effects of current budget strategies adopted by the budget office and the legislature.

Long-term vacant positions are not part of naturally occurring vacancy rates. The fact agency management has allowed positions to remain vacant for an extended period of time suggests the positions are not necessary to agency operations.

Other states have taken steps to ensure that vacant positions are related to natural occurrences and the positions are essential for agency operations. For example, California state law requires the Comptroller to eliminate positions that are vacant for six consecutive months. Provisions are included for recruiting "hard-to-fill" positions (such as direct care workers in state custodial facilities) that allow agencies to petition the authorizing agency to reinstate such positions automatically eliminated by the six-month rule. Additional measures discourage agencies from moving staff between vacant positions.

To establish more accurate data of the positions necessary to provide current state government services, the Governor's Office of Budget and Program Planning (OBPP) needs to examine authorization for all positions that have been vacant for one year or longer and remove associated funds from the base budget. As of March 17, 2004 there were 296 vacant FTE meeting this criteria. In addition, OBPP should review the need for keeping those positions that have been vacant between six months to one year and consider eliminating those positions agencies cannot justify keeping.

Eliminating these long-term vacant positions from the base budget initial request will generate a reduction in personal services budget requests of $20.7 million to $34 million for the biennium. These projections include FTE funded from all fund types. Our analysis shows approximately 80 percent of FTE vacant 181 days or more are funded via House Bill 2 appropriations. Eliminating only House Bill 2 vacant positions would reduce personal services budget requests by $15.6 million to $26.9 million for the biennium. Estimates are based on an average annual salary including benefits of approximately $35,000 per year. The following table illustrates the reductions.

Table 4

Estimated Biennial Dollars Associated with Long-Term Vacant Positions
Positions Vacant on March 17, 2004

Time Vacant	Number of Vacant FTE, All Fund Types	Number of Vacant FTE, HB 2 Only	Estimated Biennial Dollars, All Fund Types	Estimated Biennial Dollars, HB 2 Only
Vacant between 181 and 364 days	190.14	162.06	$ 13.3 million	$ 11.3 million
Vacant 1 year or more	296.34	223.47	$ 20.7 million	$ 15.6 million
TOTAL	486.48	385.53	$ 34.0 million	$ 26.9 million

Source: Compiled by the Legislative Audit Division

Agencies use the budget authority associated with long-term vacant positions to meet vacancy savings mandates. Natural occurring vacancy savings rates have been distorted by past and current legislative and agency actions. OBPP needs to review the need for maintaining positions vacant more than six months to ensure the positions are necessary to agency operations.

Recommendation #1

A. We recommend OBPP review and eliminate all positions vacant for one year or longer from the base budget.

B. We recommend OBPP review the need for maintaining positions vacant between six months and one year and eliminate positions agencies cannot justify.

If long-term vacant positions are eliminated from the base budget, affected agencies will no longer have a major "tool" used to meet agency initiatives, unfunded personnel costs and mandated vacancy savings. If long-term vacant positions are eliminated, then a reduction to the mandated vacancy savings rate must also be considered. Any vacancy rates remaining should more accurately reflect the naturally occurring vacancy rate.

Conclusion: Elimination of long-term vacant positions affect agencies ability to address the effects of agency initiatives, unfunded personnel costs and mandated vacancy savings.

Appendix A - Audit Approach

Audit Objectives

The Legislative Audit Committee requested audit work focusing on managing vacant positions in state agencies. In response to this request, we established the following performance audit objectives:

1. Gather and review background information on personal services budgeting and vacant position management.
2. Compile historical data on the extent of vacant FTE for comparison and trending purposes.
3. Identify reasons for vacant positions both from a statewide perspective and in detail for a sample of agencies.
4. Identify agency strategies for managing personal services and vacant positions.
5. Determine experiences and impacts of vacant positions on agency operations.
6. Develop recommendations to the Governor.

Audit Scope and Methodologies

The scope of this audit focused on Executive Branch agencies. The University System was excluded from our review since the Legislature does not appropriate funding specifically for FTE. While the majority of the audit focused on Executive Branch agencies, we did include Judicial and Legislative Branches in the trending analysis of the extent of filled and vacant FTE. By including all three branches of government, we provide more complete trend information on filled and vacant FTE over time.

In order to gain an understanding of personal services budgeting and the concept of vacancy savings we reviewed statutes, Legislative Fiscal Analysis Reports (proposed budgets) and Legislative Fiscal Reports (appropriations). We also examined a number of information documents produced by Legislative Fiscal Division related to the state budgeting process. In addition, we discussed concepts and strategies with staff from the Office of Budgeting and Program Planning (OBPP) and Legislative Fiscal Division.

We performed research and gathered data related to employee turnover in organizations. We worked with the Department of

Administration to gather information regarding reasons state employees leave employment with the State of Montana. In addition, staff from the department provided projections relative to pending retirements of state employees and input regarding impacts of retirements on state operations.

We compiled demographics and trend data on numbers of vacant FTE by utilizing vacant position reports originating from SABHRS and the Payroll, Personnel and Position Control System (predecessor to SABHRS). These reports present data on the number of vacant positions at a "snapshot" in time. These reports were used as the basis of our analysis of the number of vacant FTE over time and the portion of total FTE this represents.

We reviewed public administration information in the area of budgetary theory and personnel management. In addition, we researched demographic data from the U.S. Census Bureau, and general information on the labor force from the U.S. Department of Labor. Our goal in this area was not to report specific information from these sources, but rather to use this information as a guide for analysis of information we were finding in Montana state government.

We also conducted audit work to identify reasons for vacant positions for a sample of agencies. In order to accomplish this, we worked with staff from both the OBPP and the Department of Administration. In addition, we interviewed agency management from a number of agencies to review and discuss reasons positions are vacant. We provided agencies with a list of vacant positions and requested they provide the reason each position was vacant. This information was then aggregated with data gathered from OBPP and prior work performed by our office to provide perspective on reasons agencies keep positions vacant.

Data Limitations

We encountered limitations on the extent of historical data that was available for individual positions – positions filled or vacant at any point in time. SABHRS does not have reporting capabilities to go “back in time” to identify vacant positions. For example, we cannot request a SABHRS report detailing all positions that were vacant on September 19, 2003. The data tables and parameters utilized in SABHRS are not designed in such a way that captures this information. However, SABHRS does have reporting capability to identify all vacant positions on the particular date the report is run.

Given the limitations of SABHRS historical information, we relied on vacant position reports that were run in the past in order to generate historical vacancy data. These reports illustrate positions vacant on a particular date in each of the reports we obtained – as opposed to presenting data for the entire year. Thus, vacant position reports present a “snapshot in time”. We were able to obtain limited historical vacant position reports. We obtained 16 vacant position reports covering dates between December 1992 and March 2004. These reports had been archived by OBPP and our office.

In addition, we were not able to identify the natural rate of vacancy savings individual agencies – nor the state as a whole - experience due to employee turnover. Mandated vacancy savings has been used as a tool to balance the budget for over twenty-five years, thus it is not possible to discern between natural vacancy savings and mandated vacancy savings. The significance of this limitation being it is not possible to evaluate what the comprehensive effects are of the established mandated percentages of vacancy savings because the effects of mandated vacancy savings cannot be distinguished from the effects of naturally occurring vacancy savings.

The Payroll, Personnel and Position Control System (PPP) relied on agencies keeping accurate records regarding whether positions were vacant or filled. In comparison, SABHRS automatically updates position status by tying it to payroll data. Thus, vacant position data gathered from PPP reports (prior to July 1999) are not as accurate as SABHRS data.

Office Response

OFFICE OF THE GOVERNOR
BUDGET AND PROGRAM PLANNING
STATE OF MONTANA

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RECEIVED
NOV 01 2004
LEGISLATIVE AUDIT DIV.

November 1, 2004

Mr. Scott A.. Seacat
Legislative Auditor
Legislative Audit Division
State Capitol, Room 160
Helena, MT 59620-1705

Dear Mr. Seacat:

I have reviewed the final report on the legislative performance audit of Managing Vacant Positions in State Agencies. Your report goes far in explaining the challenges facing state agencies in managing budgets and how vacant positions fit into those management plans. In reference to your recommendation, I generally concur.

Recommendation # 1

A. We recommend OBPP review and eliminate all positions vacant for one year or longer from the base budget.

The 2003 Legislature reduced general funded agency budgets beyond vacancy savings reductions by cutting an additional $3.7 million in personal services funding. The Governor has chosen to continue this reduction into the 2007 biennium with a few exceptions. Agencies with 24/7 positions were allowed to pro-rate their reduction down by that percentage of 24/7 positions to all positions in the agency. In addition, agencies who's reduction would be less than $11,000 per year were exempted. Agencies may also have been exempted because the agency chose to reduce operating expenses rather than personal services in the base year. With these exemptions taken into consideration, agency budgets were permanently reduced by nearly 60.00 FTE and $2.25 million general fund each year. This is only slightly less than all general funded positions vacant for one year or more. We did not reduce the positions that were funded from sources other than the general fund.

B. We recommend OBPP review the need for maintaining positions vacant between six months to one year and eliminate positions agencies cannot justify.

My staff works with agencies every budget development cycle, as well as in the interims, to determine current level FTE that may no longer be needed. The system is not perfect, but it does spark constructive conversations and unearth a list of circumstances justifying these vacant positions that is very lengthy. The largest reason for agencies to keep positions vacant is to meet vacancy savings obligations. In the 2007 biennium, four percent vacancy savings will generate approximately $7.3 million general fund (nearly $20 million all funds) each year. Agencies must build this into their position management plan. My staff estimates that agencies need to hold approximately 620.00 FTE statewide vacant for almost 7 months to cover vacancy savings. As long as vacancy savings continue to be used as a part of the budgeting process, these positions will need to remain vacant. My staff will continue to work on this issue, taking the recommendations and intent of this report very seriously.

My staff and I are always looking for more effective ways to budget for personal services and manage personal services budgets. I truly appreciate the thoroughness and professionalism of your staff as they conducted their audit work. This office looks forward to working with you and your staff in the future as the evolution of personal services budgeting continues.

Sincerely,

Chuck Swysgood
Budget Director

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